

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1890-01
Bill No.: SB 588
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: March 31, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$2,950,743)	(\$2,950,743)	(\$2,950,743)
Total Estimated Net Effect on General Revenue Fund*	(\$2,950,743)	(\$2,950,743)	(\$2,950,743)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Highway Fund	(\$741,400)	(\$741,400)	(\$741,400)
Total Estimated Net Effect on Other State Funds*	(\$741,400)	(\$741,400)	(\$741,400)

*** The provisions affecting the Missouri State Employees Retirement System increases the Unfunded Actuarial Accrued Liability (UAAL) by \$49,990,908. The provisions affecting the Highway Employees and Patrol Retirement System increases the Unfunded Actuarial Accrued Liability (UAAL) by approximately \$14.8 million.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicated the above referenced legislation would indicate that such legislation is a “substantial proposed change” in future plan benefits as defined in Section 105.655(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least five (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement.

Officials from the **Missouri State Employees’ Retirement System** assume the proposal would

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allow any member who retired prior to July 1, 1990 to receive a monthly increase equivalent of five dollars multiplied by the member's years of service.

ASSUMPTION (continued)

For members retired prior to July 1, 1990, current monthly benefit will be increased by the number of years of service at retirement multiplied by five dollars. As proposed, this benefit would receive future scheduled cost-of-living adjustments.

Based upon the annual payroll for the June 30, 2002 valuation projected forward two years (one year at 0% due to the state pay freeze and one year at 4%, the long-term assumed annual rate of payroll growth), the increase in total contribution necessary to fund the proposed benefit would be approximately \$3 million in the first year after the benefit change.

This proposal would, if enacted, grant retirees who retired prior to July 1, 1990 an additional benefit that would not be available to the rest of the retiree population. Singling out a select group of retirees for special benefits would clearly defining the criteria for such treatment can result in equal protection lawsuits being filed against the state by other retirees who wish to receive the same benefit. Those retirees could argue that there is no rational basis for treating two groups of retirees differently based on what appears to be an arbitrary date. In recent years, the state has incurred more than \$100 million in costs as a direct result of equal protection lawsuits that have been filed by various groups of state employees and retirees.

Officials from the **Highway Employees and Patrol Retirement System (HEHPRS)** assume this proposal would apply only to individuals who retired prior to July 1, 1990, who are currently still living, and who did not switch to the Year 2000 Plan.

For affected retirees, the monthly annuity would increase \$5 for every full year of retirement system creditable service. For example, assume, a retiree had 40 years of service. His/her monthly benefit would increase \$200. Future COLA's would be based on the new total monthly annuity.

The legislation would apply to individuals who currently are survivors of deceased retirees. Estimated annual cost of this legislation:

MoDOT	\$549,700
Patrol	
Non-Uniformed	\$ 71,300

	Uniformed Patrol	<u>\$120,000</u>	<u>\$191,700</u>
<u> </u>	Total		\$741,400

ASSUMPTION (continued)

These calculations are based on annual payroll levels of:

MoDOT	\$239 Million
Non-Uniformed	\$ 31 Million
Uniformed Patrol	\$ 43 Million

Increased contribution rates of:

MoDOT	0.23%
Non-Uniformed	0.23%
Uniformed Patrol	0.28%

Officials from the **Department of Transportation** assume the proposal would apply only to individuals who retired prior to July 1, 1990, who are currently still living, and who did not switch to the Year 2000 plan.

For affected retirees, the monthly annuity would increase \$5 for every full year of retirement system creditable service. For example, assume a retiree had 40 years of service. His/her monthly benefit would increase by \$200. Future COLAs would be based on the new total monthly annuity.

The legislation would not apply to individuals who currently are survivors of deceased retirees. Estimated annual cost of this legislation to MoDOT is \$549,742. This calculation is based on an annual payroll of \$239,018,162, with an increased contribution of 0.23%.

Oversight will present the net increase as determined by the Highway Employees and Patrol System Retirement plan since the Highway Employees and Patrol System Retirement plan has included non-uniformed and uniformed patrol cost in its net cost increase.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
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GENERAL REVENUE FUND

Cost - General Revenue

Increased Contributions to Retirement Plans	<u>(\$2,950,743)</u>	<u>(\$2,950,743)</u>	<u>(\$2,950,743)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS*	<u>(\$2,950,743)</u>	<u>(\$2,950,743)</u>	<u>(\$2,950,743)</u>

HIGHWAY FUND	FY 2004	FY 2005	FY 2006
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Cost - Highway Fund

Increased Contributions to Retirement Plans	<u>(\$741,400)</u>	<u>(\$741,400)</u>	<u>(\$741,400)</u>
TOTAL ESTIMATED NET EFFECT ON HIGHWAY FUND*	<u>(\$741,400)</u>	<u>(\$741,400)</u>	<u>(\$741,400)</u>

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<u>FISCAL IMPACT - Local Government</u>	<u>FY 2004</u> <u>(10 Mo.)</u>	<u>FY 2005</u>	<u>FY 2006</u>
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

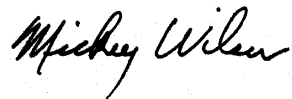
DESCRIPTION

This act allows members of MOSERS who retired prior to July 1, 1990, to receive an additional \$5 per month times the number of years of creditable service.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri State Employees' Retirement System
Joint Committee on Public Employee Retirement
State Highway Employees and Patrol Retirement System
Department of Transportation



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Director
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